

Economic Outlook and Forecast

Background

The Consensus Economic Forecasting Commission was originally established by Executive Order on May 25, 1992, in order to provide the Governor, the Legislature and the Revenue Forecasting Committee with analyses, findings and recommendations for state economic assumptions to be used in developing state revenue forecasts. Creation of the commission was in response to a recommendation of the Special Commission on Government Restructuring in 1991 to establish an independent, consensus process for state economic and revenue forecasting. Public Law 1995, chapter 368 enacted in statute the Consensus Economic Forecasting Commission, maintaining both the structure and intent of the original Executive Order.

The commission consists of five members having professional credentials and demonstrated expertise in economic forecasting. Members of the commission are appointed as follows: two members appointed by the Governor; one member recommended for appointment to the Governor by the President of the Senate; one member recommended for appointment to the Governor by

the Speaker of the House of Representatives; and one member appointed by the other members of the commission. One member of the commission must be selected by a majority vote of the other commission members to serve as the chair of the commission.

The commission is required to develop two year and four year economic forecasts for the State of Maine. In performing this duty, the commission is required by statute to meet twice each fiscal year. No later than November 1st and February 1st annually the commission must develop its findings with regard to the economic assumptions or adjustments to the existing economic assumptions for the State of Maine. The commission submits its findings to the Governor, the Legislative Council, the Revenue Forecasting Committee and the Joint Standing Committee of the Legislature having jurisdiction over appropriations and financial affairs. The Revenue Forecasting Committee is required to use the economic assumptions and forecast of the commission in developing its four-year revenue projections.

Findings

The Consensus Economic Forecasting Commission met in October, 2004 to prepare the economic assumptions that would become the basis for the Revenue Forecasting Committee's revenue projections for fiscal years 2004-05, 2005-06, 2006-07, 2007-08 and 2008-09.

The Commission concluded that the Maine and national economies are both growing at slow to moderate rates, with only a few sectors showing strong growth. The basis for this conclusion was employment growth through August of only 0.7% over the same period last year, adding 5,800 jobs since year end (seasonally adjusted), an annual rate of growth through July of 2.7% in the Maine Coincident Economic Index, which approximates

Gross State Product growth, and a seasonally adjusted unemployment rate of 4.5% in August compared to a national rate of 5.4%. Additionally, Maine taxable retail sales for the first seven months were up 6.5% over the same period of last year. The commission revised personal income growth downward by about a half-percentage point below the February forecast, resulting in growth of 4.0% throughout the 2005-2009 period. The primary cause of this slower growth was slower forecast growth for Supplements to Wages and Salaries (formerly termed Other Labor Income) and Transfer Payments. Consumer Price Index (CPI) growth is projected at 2% for each year of the 2005-2009 period.

The major economic growth assumptions are summarized in **Table B – 1**.

TABLE B – 1						
MAJOR UNDERLYING GROWTH RATE ECONOMIC ASSUMPTIONS						
Calendar Year	2004	2005	2006	2007	2008	2009
Non-Farm Employment	0.9%	1.7%	1.5%	1.1%	1.3%	1.3%
ME Personal Income (Nominal)	5.5%	4.0%	4.0%	4.0%	4.0%	4.0%
U.S. Consumer Price Index	2.8%	2.0%	2.0%	2.0%	2.0%	2.0%

A more detailed list of economic assumptions, which are incorporated into the revenue forecasting

models used by the Revenue Forecasting Committee, are shown below in **Table B - 2**.

TABLE B - 2

MAINE CONSENSUS ECONOMIC FORECASTING COMMISSION												
Forecast of October, 2004 (As Revised on Oct. 15, 2004)												
CALENDAR YEAR	HISTORICAL DATA						FORECAST					
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Consumer Price Index - (Urban Dwellers)	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.8%	2.0%	2.0%	2.0%	2.0%	2.0%
Annual Growth Rate												
Maine Unemployment Rate	4.4	4.1	3.4	4.0	4.4	5.0	4.3	4.2	4.1	4.1	4.0	4.0
Average 3-Month Treasury Bill Rate	4.9%	4.8%	6.0%	3.5%	1.6%	1.1%	1.2	2.8	4.1	4.7	4.6	
Average 10-Year Treasury Note Rate	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%	4.5	5.0	5.7	5.7	5.5	
Maine Agricultural Employment (Thousands)	16	13.0	16.0	12.0	14.0	16.0	13.0	14.0	14.0	14.0	14	14.0
Non-Farm Employment (Thousands)												
Natural Resources	2.7	2.7	2.7	2.7	2.6	2.5	2.6	2.7	2.6	2.6	2.6	2.6
Construction	25	27.8	29.2	29.8	29.4	30.4	31.5	30.1	29.1	29.2	29.5	29.9
Manufacturing	81.1	80.6	79.5	74.6	68	63.8	61.3	61.1	60.7	60.4	60.1	59.8
Trade/Transp./Publ. Utils.	115.9	119.5	122.7	123.6	123.2	123.0	124.0	125.2	127.1	127.6	128.3	129.0
Information	11.1	11.7	12.1	12.2	11.6	11.2	11.3	11.6	11.8	12.0	12.3	12.5
Financial Activities	31.2	32.8	34.1	35.1	35.1	35.0	35.4	36.3	37.2	38.0	38.6	39.1
Prof. & Business Services	46.6	48.3	51.8	51.8	51.4	50.6	51.0	53.8	55.7	57.0	58.4	59.8
Education & Health Services	90	94.2	97.5	100.7	104.9	106.8	109.0	112.7	115.9	118.4	121.8	125.1
Leisure & Hospitality Services	53.2	54.3	55.9	56.5	57.3	58.3	59.3	61.2	63.2	64.8	66.4	68.2
Other Services	17.7	18	18.3	19.1	19.8	21.0	21.8	22.3	22.6	22.9	23.2	23.6
Government	94.6	96.7	99.6	102	103.1	103.5	104.1	104.5	104.8	105.2	105.5	105.8
Total Non-Farm Employment	569.1	586.3	603.5	608.1	606.5	606.1	611.3	621.4	630.9	638.2	646.7	655.4
Annual Growth Rates for Non-Farm Employment												
Natural Resources	-				-3.7%	-3.8%	5.9%	1.2%	-2.0%	-1.3%	-0.5%	-0.3%
Construction	-	11.2%	5.0%	2.1%	-1.3%	3.4%	3.7%	-4.6%	-3.2%	0.3%	1.0%	1.4%
Manufacturing	-	-0.6%	-1.4%	-6.2%	-8.8%	-6.2%	-3.9%	-0.4%	-0.5%	-0.6%	-0.5%	-0.5%
Trade/Transp./Publ. Utils.	-	3.1%	2.7%	0.7%	-0.3%	-0.2%	1.0%	1.0%	1.5%	0.4%	0.5%	0.5%
Information	-	5.4%	3.4%	0.8%	-4.9%	-3.4%	0.7%	2.8%	1.8%	2.0%	2.0%	1.9%
Financial Activities	-	5.1%	4.0%	2.9%		-0.3%	1.0%	2.6%	2.7%	2.1%	1.5%	1.2%
Prof. & Business Services	-	3.6%	7.2%		-0.8%	-1.6%	0.7%	5.6%	3.5%	2.3%	2.5%	2.4%
Education & Health Services	-	4.7%	3.5%	3.3%	4.2%	1.8%	2.0%	3.4%	2.9%	2.1%	2.9%	2.7%
Leisure & Hospitality Services	-	2.1%	2.9%	1.1%	1.4%	1.7%	3.1%	3.3%	2.6%	2.5%	2.8%	
Other Services	-	1.7%	1.7%	4.4%	3.7%	6.1%	3.8%	2.2%	1.5%	1.3%	1.4%	1.4%
Government	-	2.2%	3.0%	2.4%	1.1%	0.4%	0.6%	0.4%	0.4%	0.3%	0.3%	0.3%
Total Non-Farm Employment		3.0%	2.9%	0.8%	-0.3%	-0.1%	0.9%	1.7%	1.5%	1.1%	1.3%	1.3%
Total Personal Income (Millions)	29,709.75	31,016.25	33,173.25	35,102.25	36,295.5	37,781.5	39,859.5	41,453.9	43,112.0	44,836.5	46,630.0	48,495.2
Wage and salary disbursements	15,204.0	16,234.0	17,194.8	17,978.3	18,500.0	19,169.3	20,166.1	21,154.2	22,190.7	23,211.5	24,279.2	25,396.1
Supplements to Wages & Salaries	3,359.8	3,554.0	3,772.8	4,056.5	4,451.3	4,731.0	4,977.0	5,136.3	5,295.5	5,454.4	5,596.2	5,741.7
Non-farm Proprietors' income	2,131.0	2,227.5	2,347.0	2,768.0	2,806.5	3,010.8	3,197.4	3,418.0	3,612.9	3,800.7	3,983.2	4,174.4
Farm Proprietors' income	55.5	77.0	57.0	26.8	-3.5	-33.8	39.8	41.4	43.0	44.8	46.6	48.5
plus: Dividends, interest, and rent	5,744.5	5,618.5	6,178.5	6,342.0	6,217.3	6,100.0	6,520.9	6,547.0	6,579.7	6,764.0	6,960.1	7,155.0
plus: Transfer payments	5,121.5	5,279.3	5,588.3	6,017.3	6,464.3	7,003.8	7,396.0	7,710.7	8,005.7	8,338.5	8,674.3	9,005.7
less: Personal contrib. for social insurance	2,417.5	2,554.8	2,665.8	2,812.0	2,848.8	2,926.3	3,089.0	3,203.4	3,358.5	3,522.5	3,688.7	3,852.2
plus: Adjustment for residence	511.3	580.3	700.5	725.5	707.8	726.5	699.7	714.9	737.9	768.5	802.0	836.7
Farm Income	138.0	153.8	145.8	117.0	90.5	80.0	79.7	82.9	86.2	89.7	93.3	97.0
Annual Growth Rates												
Total Personal Income (Millions)	-	4.4%	7.0%	5.8%	3.4%	4.1%	5.5%	4.0%	4.0%	4.0%	4.0%	4.0%
Wage and salary disbursements	-	6.8%	5.9%	4.6%	2.9%	3.6%	5.2%	4.9%	4.9%	4.6%	4.6%	4.6%
Supplements to Wages & Salaries	-	5.8%	6.2%	7.5%	9.7%	6.3%	5.2%	3.2%	3.1%	3.0%	2.6%	2.6%
Non-farm Proprietors' income	-	4.5%	5.4%	17.9%	1.4%	7.3%	6.2%	6.9%	5.7%	5.2%	4.8%	4.8%
Farm Proprietors' income	-	38.7%	-26.0%	-53.1%	Not Available - negative base values			4.0%	3.9%	4.2%	4.0%	4.1%
plus: Dividends, interest, and rent	-	-2.2%	10.0%	2.6%	-2.0%	-1.9%	6.9%	0.4%	0.5%	2.8%	2.9%	2.8%
plus: Transfer payments	-	3.1%	5.9%	7.7%	7.4%	8.3%	5.6%	4.3%	3.8%	4.2%	4.0%	3.8%
less: Personal contrib. for social insurance	-	5.7%	4.3%	5.5%	1.3%	2.7%	5.6%	3.7%	4.8%	4.9%	4.7%	4.4%
plus: Adjustment for residence	-	13.5%	20.7%	3.6%	-2.4%	2.6%	-3.7%	2.2%	3.2%	4.2%	4.4%	4.3%
Farm Income		11.4%	-5.2%	-19.7%	-22.6%	-11.6%	-0.4%	4.0%	4.0%	4.0%	4.0%	4.0%

Source: Report of the Maine State Revenue Forecasting Committee, December 2004

